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RESTRUCTURING AND REVITALIZATION OF THE UNITED NATIONS IN THE ECONOMIC, SOCIAL AND RELATED FIELDS

Funding operational activities for development within the United Nations system

Report of the Secretary-General

CONTENTS

		Paragraphs	Page
I.	INTRODUCTION	1 - 4	3
II.	RESOURCE TARGETS	5 - 23	3
	A. Existing operational practices	5 - 10	3
	B. Internationally established targets	11 - 16	9
	C. Advantages of multilateral, United Nations system development cooperation	17 - 20	10
	D. Level of financing and operational and administrative costs	21 - 23	11
III.	FUNDING OPTIONS	24 - 35	17
	A. Overview	24 - 26	17
	B. Assessment of funding options	27 - 30	17
	C. Possible alternative funding modalities	31 - 35	19
IV.	CONCLUSIONS	36	21

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CONTENTS (continued)

List of tables

		Page
1.	UNICEF - Decisions of the Executive Board for planning purposes ..	7
2.	UNFPA - Decisions of the governing body regarding programme authorizations and resources for planning purposes	8
3.	UNDP - Planned versus actual IPF programme resources	13
4.	UNICEF - income projections	14
5.	UNFPA - New programmable resources for 1994-1997	15
6.	WFP - Cash flow projections for regular resources	16

I. INTRODUCTION

1. In May 1994, the Secretary-General, at the request of the General Assembly in annex I, paragraphs 32-34, of its resolution 48/162 of 20 December 1993, issued a comprehensive report on the funding of operational activities for development within the United Nations system (A/48/940). The President of the General Assembly convened the consultations on prospective new modalities for financing at the resumed forty-eighth session of the Assembly on 21 June 1994. Following consultations by the President, Ambassador T. P. Sreenivasan (India) was chosen as Chairman.

2. The Chairman's summary of the initial discussions and those held on 11 July and 26 October were issued as annexes I and II of document A/49/749. These preliminary discussions basically established the framework for later discussions and identified additional information to be sought from the Secretary-General. During these meetings, the critical nature of the discussions was recognized, as was the fact that the operational activities of the United Nations were beset by significant resource shortfalls. The general view was that the funding of the operational activities had to be placed on a secure and predictable basis, and that there was an urgency to this question.

3. On 11 November 1994, the Secretary-General issued a report (A/49/665) under agenda item 92 (Agenda for development), which, inter alia, in paragraphs 90 and 91, addressed the issues relating to a new funding system. That report should be read in conjunction with document A/48/940 and the present report. The critical issue identified in document A/49/665 is that the United Nations is in financial crisis and that reliance on voluntary contributions alone, in the light of the expanded development mandate of the Organization, is no longer feasible.

4. The present report responds to the requests contained in the Chairman's summary of the consultations held on 26 October 1994 (see A/49/749, annex II).

II. RESOURCE TARGETS

A. Existing operational practices

5. At the consultations of 26 October 1994, Governments agreed that the Secretary-General should be asked to provide a supplementary report, inter alia, "on resource targets for operational activities for the next three years, taking into account the needs of the developing countries, the advantages of multilateralism, the orientation, focus and specific priorities of the United Nations operational activities for development, the level of financing of the programmes and funds over the past years, the decisions made by the Executive Boards of the funds and programmes, the mandates from conferences and summits, and the projection of available funding and its implications for the capacity of the United Nations system for the implementation of programmes" (A/49/749, annex II, para. 4).

6. In addressing this request, it should be borne in mind that it would involve an approach which differs from existing practice in that the resource targets would be considered from the perspective of "the needs of the developing countries", rather than from current practice of resource targets determined in accordance with past trends and future expectations for voluntary funds, and which is based upon striking a balance between the needs of developing countries and reasonable expectations about the level of resources that each organization might obtain. The current practice has produced a situation in which programme levels at the United Nations Development Programme (UNDP), the United Nations Children's Fund (UNICEF), the United Nations Population Fund (UNFPA) and the World Food Programme (WFP) are resource constrained; the level of funding has not been based on quantifiable needs of developing countries. The level of programme activities is based on assumptions of resource growth as determined by their governing bodies. As discussed in paragraphs 11 to 16, while efforts have been made, within the mandate of the organization concerned, to define the needs of each developing country, no attempt has been made to estimate the total needs which would have to be met by the organizations. Methodological difficulties stand in the way of quantifying global needs of external assistance required from the United Nations system by recipient countries; it would be a time-consuming exercise. At the country level, a case could be made for a needs-based approach as a satisfactory basis for establishing funding levels, if Member States would be prepared to provide the resources needed to meet the identified needs on a predictable and assured basis.

7. There are basically three alternatives to be considered: whether to retain the existing system, in spite of the fact that donors, recipients and organizations agree that it is inadequate; to modify and improve the existing system; or to develop a new system. Either of the latter two alternatives could be acceptable. In this connection it should be recalled that the Secretary-General, in his report on an agenda for development, indicated that: "... a number of principles and proposals have been put forward. It has been recognized that more resources are needed, that mandates and the resources provided for them must be in a sound relationship, and that predictability in funding is essential so that operations are not undermined in the midst of performance. It has been suggested that a system of assessed, negotiated and voluntary contributions provides the most logical and appropriate means of financing the United Nations" (A/49/665, para. 91). The present report will explore some of these options in line with the specific issues raised by Governments in the consultations held so far.

8. As stated in document A/48/940, the existing system is exposed to political changes due to budgetary constraints of Governments and exchange rate fluctuations. These create difficult programme planning processes which lately have been exacerbated by actual decreases in pledges of some donors in local currency terms and delays in pledging and payment, so that resource levels for a year are not fully known until late in the year. As a result, it is necessary for the organizations to adopt conservative planning models which attempt to spread programme activities over several years to avoid drastic increases or decreases in programmes in any one year which would either not be sustainable or would significantly impact the future programme. Unfortunately, this uncertainty can result in an inefficient use of funds in that organizations may

either carry forward unutilized balances of funds or be forced to utilize reserves, in either case exposing them to criticism by their governing bodies.

9. There has been a significant increase in non-core and supplementary funds 1/ made available to several of the organizations in the recent past. These funds, however, are also unpredictable and generally are for specific countries, programmes or projects. It does indicate, however, the trust and confidence the recipient and donor countries have in the ability of the organizations to formulate and implement development programmes. Utilizing the coherent country programmes and programme notes developed by the organizations with the Governments, non-core funds can assist the developing country to achieve the goals unmet by core resources. There have been very significant indications of this in recent years, as reported for example to the Executive Board of UNDP and of UNFPA in document DP/1994/34/Add.1 and Add.1/Corr.1.

10. Each organization has experienced a shortfall in resources for development in relation to targets established by the respective governing body. As discussed also in the main report (A/48/940), levels of pledges have in some instances been significantly reduced in recent years, which has created difficulties in programme expenditure levels as set out below:

(a) UNDP. The targets set by the Governing Council of UNDP and the resource projections made by it for the fifth programming cycle of UNDP (1992-1996) have not been attained. Governing Council decision 90/34 of 23 June 1990 called for 8 per cent annual increases. Although this target was achieved in 1992, the resources pledged for the following years have seen drastic cuts. The shortfall for the cycle is estimated at $1.4 billion. This has necessitated reducing indicative planning figure (IPF) allocations to 70 per cent of the originally approved levels for the cycle. UNDP programmes over the last three cycles have seen volatility, as reflected in table 3. During the third cycle (1982-1986) programme allocations had to be cut by 45 per cent from their original level of $4,864 million to $2,680 million. During the fourth cycle (1987-1991) programme allocations were increased by 16 per cent from the original level of $3,165 million to $3,655 million, reflecting the increased value of pledges and gains on exchange resulting from the weakness of the United States dollar. This represented a 36 per cent increase against the third cycle programme resource base. In the fifth cycle, programme allocations have been reduced by 30 per cent from their original allocations of $4,163 million to $2,972 million. This represents a 19 per cent decrease against the fourth cycle resource base.

(b) UNICEF. As indicated in table 1, the planned programme expenditures for 1993 were initially $677 million in 1990. These increased to $747 million in 1991, then decreased to $731 million in 1992. The year 1993 witnessed a marked increase to $785 million that was mainly driven by programming expenditures to emergencies and intensified efforts towards meeting the mid-decade goals of the World Summit for Children.

(c) UNFPA. As indicated in table 2, for 1993 the planned programme of UNFPA was $211.3 million in 1989; it decreased to $204 million in 1990, was increased to $225.7 million in 1991 and ultimately $188.1 million was

authorized. That represented a drop in the programme of 17 per cent in one year. Programme planning for 1994 shows the same volatility.

(d) WFP. WFP has a dual mandate - development and humanitarian assistance. Contributions for development activities were about $1 billion against a target of $1.5 billion for the biennium 1993-1994; and contributions for humanitarian assistance were about $1.2 billion for the same period. The shortfall on the target for development assistance was compounded by an inadequate provision of cash to meet operational as well as administrative needs. At the same time, although enough resources were available for humanitarian assistance, both in cash and in commodities, there were not sufficient cash contributions to meet administrative needs. The Committee on Food Aid Policies and Programmes (CFA) has established a formal working group on options for WFP's resources policies and long-term financing. The working group is to submit a progress report to CFA at its thirty-ninth session in May 1995, with a full report and recommendations to be submitted at the fortieth session in October 1995.

The decreases in resources for development as compared to 1992, and the lack of predictability in relation to targets established by governing bodies, disrupt programmes and projects in programme countries. The resource shortfall in operational activities has prompted Governments to call for a better system. Moreover, as stated in the Chairman's summary of the consultations held on 26 October: "The general view was that the funding of the operational activities had to be placed on a secure and predictable basis, and that there was an urgency to the question" (A/49/749, annex II, para. 3). In this connection, it needs to be pointed out that in terms of total development requirements and total official development assistance (ODA), the amounts channelled through the funds and programmes are relatively modest.

Table 1. UNICEF - Decisions of the Executive Board for planning purposes

(Millions of United States dollars)

Total	1990		1991		1992		1993		1994		1995		1996		1997	
	$	change	$	change	$	change	$	change	$	change	$	change	$	change	$	change
1989 Financial Medium-term Plan																
Planned Programme Expenditure	533		597		622											
1990 Financial Medium-term Plan																
Planned Programme Expenditure	570	6.9%	602	0.8%	627	0.8%	677									
1991 Financial Medium-term Plan																
Planned Programme Expenditure			680	13.0%	715	14.0%	747	10.3%	787							
1992 Financial Medium-term Plan																
Planned Programme Expenditure					711	-0.6%	731	-2.1%	761	-3.3%	793					
1993 Financial Medium-term Plan																
Planned Programme Expenditure							785	7.4%	775	1.8%	775	-2.3%	791			
1994 Financial Medium-term Plan																
Planned Programme Expenditure									775	0.0%	775	0.0%	779	-1.5%	788	

Table 2. UNFPA - Decisions of the governing body regarding programme authorizations and resources for planning purposes

(Millions of United States dollars)

	Decision	1990	1991	Change	1992	Change	1993	Change	1994	Change	1995	Change	1996	Change	1997	Change	1998
1989 Decision																	
Programme Expenditure Authority	89/46 B4	156.2															
New Programme Resources	89/46 B5		172.8		191.1		211.3										
1990 Decision																	
Programme Expenditure Authority	90/35 B4		166.7	-3.53%													
New Programme Resources	90/35 B5				184.5	-3.45%	204.0	-3.45%	220.6								
1991 Decision																	
Programme Expenditure Authority	91/35 B3				201.3	9.11%											
New Programme Resources	91/35 B4						225.7	10.64%	255.6	15.87%	281.9						
1992 Decision																	
Programme Expenditure Authority	92/32 B2						188.1	-16.66%									
New Programme Resources	92/32 B3								207.4	-18.86%	225.0	-20.18%	244.4				
1993 Decision																	
Programme Expenditure Authority	93/27 B2								217.3	4.77%							
New Programme Resources	93/27 B3										234.1	4.04%	246.8	0.98%	260.4		
1994 Decision																	
Programme Expenditure Authority	94/20 2										224	-4.31%					
New Programme Resources	94/20 3												241.5	-2.15%	255	-2.07%	270.5

/....

B. Internationally established targets

11. As mentioned in paragraph 6, the current approach of the funds and programmes is essentially not based on funding levels in relation to quantifiable needs of recipient countries. Experience with attempts at such quantification by organizations of the United Nations system has proven to be difficult at global levels. UNDP has conducted National Technical Cooperation Assessment and Programmes (NATCAPs) in a number of countries which provide total needs assessment in the technical assistance field, often as an input into the round-table process. Governing bodies, international conferences and summits have established resource targets based on estimated needs of developing countries, which include in many instances both national and international resource requirements. A widely accepted resource target for concessional assistance to developing countries is the target level of 0.7 per cent of gross national product (GNP) set by the General Assembly in 1970. As reviewed in the main report (A/48/940), although only a few countries have achieved this level, it is indicative of the needs and should be reaffirmed by Member States as requested in Agenda 21, 2/ adopted by the United Nations Conference on Environment and Development. The Conference went further in that it also requested Member States, to the extent they had not achieved that target, to augment their aid programmes in order to reach that target as soon as possible. If that target were met by all Member States instead of by so few, many of the problems which are not properly attacked because of lack of funds, could be solved.

12. There have been several global conferences where orders of magnitude have been determined for the particular focus of the conference, which can provide indicative funding needs. For example, the World Summit for Children did not establish a global dollar amount for the Summit's Plan of Action. However, the 20/20 Initiative prepared jointly by UNDP, UNFPA, the United Nations Educational, Scientific and Cultural Organization (UNESCO), the World Health Organization (WHO) and UNICEF does estimate costs for the basic social services component of the Plan of Action.

13. The secretariat of the United Nations Conference on Environment and Development projected the estimated average annual costs (1993-2000) of implementing in developing countries, the activities in Agenda 21, to be over $600 billion, of which $125 billion of grant and concessional assistance was required from the international community. In chapter 33 of Agenda 21, entitled "Financial resources and mechanisms", one of the stated objectives was to provide new and additional financial resources that are both adequate and predictable.

14. Following the Conference, UNDP established a trust fund (Capacity 21), which was later endorsed by the Governing Council and the General Assembly, to receive voluntary contributions or supplementary funds for programmes and projects consistent with the aims and objectives of chapter 37 of Agenda 21. To date, UNDP has received pledges of $39.8 million and payments of $35.5 million in two years for Capacity 21. The Conference secretariat had estimated the range of the total annual cost for capacity-building alone, over the period 1993 to the year 2000, to be $300 million to $1 billion.

15. The International Conference on Population and Development estimated that in the developing countries and countries with economies in transition, the implementation of programmes in the area of reproductive health, including those related to family planning, maternal health and the prevention of sexually transmitted diseases as well as other basic actions for collecting and analysing population data, will cost $17 billion in 2000, $18.5 billion in 2005, $20.5 billion in 2010 and $21.7 billion in 2015. It was tentatively estimated that two thirds of the costs will continue to be met by the countries themselves and approximately one third from external sources. It was further noted that the least developed countries and other low-income countries would require a greater share of external resources on a concessional and grant basis.

16. As already mentioned, the question of estimating resource needs based on the requirements of developing countries has so far proven to be difficult, costly and time consuming, and beset by technical problems. Through international conferences and summits estimates of total resource requirements for the implementation of relevant plans of action have been made, including resources needed from the international community and support provided through the funds and programmes of the United Nations. Specific estimates of resources to be provided through these organizations do not exist in many instances, but it is, none the less, clear that the implementation of the mandates emanating from these conferences, addressed to the United Nations (in addition to other development needs), requires resource levels which are significantly higher than current ones. The frustration of recipient countries resulting from frequent situations of unmet estimation of needs should also be mentioned in this context.

C. Advantages of multilateral, United Nations system development cooperation

17. As set out in the report of the Secretary-General on an agenda for development (A/49/665, paras. 66-72), the assets and strengths of the United Nations system in the area of operational activities are, inter alia:

(a) The United Nations provides a unique forum for raising public consciousness, providing information, defining the international development agenda and building the consensus needed for action;

(b) The neutrality of the United Nations means that it does not represent any particular national or commercial interest;

(c) The United Nations has an unmatched global network of regional commissions and country offices;

(d) The United Nations emphasizes bottom-up, country-driven programming of development assistance resources, without conditionalities;

(e) The United Nations has a comprehensive mandate, spanning social, economic and political issues;

(f) United Nations programmes focus on the neediest countries and on the neediest people within those countries;

(g) The United Nations is able to mobilize, deliver and coordinate humanitarian assistance.

18. The breadth and scope of the funds and programmes, their global network of offices, comprehensive mandates and coherent country programmes make them the ideal vehicle to provide support to donor and developing countries in achieving the defined development objectives. These characteristics have been the driving force in the increased level of supplementary funds received by the organizations. When coupled with the organizations of the United Nations system, there exists an unmatched breadth of expertise across the full range of development needs to develop and implement programmes which are culturally compatible with the needs of each developing country. In that the organizations can link peace-keeping, refugee assistance, relief and rehabilitation efforts and development, it is important to supplement emergency humanitarian assistance by adequate rehabilitation and development funding. It would, of course, be much less costly and more humane to prevent emergencies by implementing effective and adequately funded development programmes

19. Annex I of document A/48/940 provides information on the mandates and focus of the four major United Nations development organizations. Each operates within the structure of the General Assembly resolution which created it. All programmes and activities are approved by the governing bodies of the organizations, including globally endorsed themes which may be reflected in development activities, the Declaration and Plan of Action adopted at the World Summit for Children or the UNFPA themes approved at the International Conference on Population and Development, held at Cairo, in September 1994.

20. Bilateral aid is often more narrowly focused, sometimes representing the expertise and national and commercial interests of the donor country. Such aid may also include conditionality, which is not a part of United Nations development grant assistance. Developing countries have stated in various forums that they clearly prefer grant-based technical assistance as provided through the United Nations organizations, primarily as it provides stable, long-term, non-tied, capacity-building assistance. Moreover, a number of developing countries have demonstrated their strong support to operational activities by making significant contributions to core resources.

D. Level of financing and operational and administrative costs

21. The information on the financial situation of each organization as contained in the Chairman's summary of discussions on document A/48/940 is unchanged in that the accounts for 1994 have not as yet been closed. Tables 3 to 6 are the financial forecasts provided by the organizations to their governing bodies in 1994, reflecting the lower level of resources envisaged at present. As previously outlined, the size of programmes of the funds and programmes is primarily driven by available levels of resources. Programmes have to be implemented within existing resources. In 1993, expenditures of the four development organizations exceeded income by $191 million, or 7.3 per cent.

UNFPA drew from its operational reserve in 1990 and 1991 and had to scale back on delivery. UNDP utilized its operational reserve in early 1994 because of delays in payment of pledges. UNICEF has nearly reached its minimum reserve requirement for its general resources. Should the situation deteriorate further, the organization's programmes may be affected adversely. WFP has been using the carry-over cash balance over the past several years. CFA has established a formal working group to make recommendations on the funding arrangements needed to put WFP operations on a sounder and more predictable financial footing.

22. The future capacity of the funds and programmes to respond to the needs of developing countries may be threatened owing to the decreasing level of resources for development provided. With the exception of WFP, which is handling a large volume of humanitarian assistance, organizations have the capacity to deliver a much larger programme than at present without significant or equivalent increases in administrative costs. This was evidenced by the size of programmes originally envisaged in the current programming cycle and their ability to manage the ever-increasing level of supplementary funds. Existing capacity - which can clearly implement larger programmes than those at presently reduced levels - will have to be diminished as programmes are reduced and administrative budgets are cut, in order to maintain administrative costs within acceptable limits. If lost, the cost to recover that capacity will, in all likelihood, be higher in the future and could delay or impair future implementation of programmes.

23. While at present detailed information on programme, programme support and administrative costs is submitted to the respective governing bodies in different formats, recent decisions by these bodies with respect to the harmonization of budget presentations will help to simplify the comparison of various cost categories. In the meantime, it should be recalled that data on this matter were provided at the consultations of 11 July (see A/49/749). Data for UNDP, comparing the various project and administrative costs for the 1992-1993 and 1994-1995 bienniums, show generally a decline in administrative and support costs (DP/1993/45, table V.1). Data for UNFPA compare trends between 1991 and 1993 as presented in the most recent official document on this subject (DP/1994/53). As concerns WFP, absolute dollar figures are provided as well as the percentage of programme support cost on turnover between 1986-1993, which has remained relatively constant. For WFP, CFA has asked the secretariat to update its Support Cost Study to determine the level of administrative support for development as well as humanitarian activities. It would be clearly desirable to achieve a more uniform presentation of these data, and the initiatives taken by the governing bodies in this respect will be helpful.

Table 3. UNDP - Planned versus actual IPF programme resources

(Millions of United States dollars)

	Third Cycle (1982 - 1986)		Fourth Cycle (1987 - 1991)		Fifth Cycle (1992 - 1996)	
	$	%	$	%	$	%
IPF at originally established level	4,864	100	3,165	100	4,163	100
IPF at final level	2,680	55	3,655	116	2,972	70
Actual/Estimated IPF expenditures	2,515	51	3,547	112	2,900	69

Table 4. UNICEF - income projections

(Millions of United States dollars)

	Average % last 5 years	Actual 1992	Actual 1993	Plan 1994	1995 a/	1995 b/	1996 a/	1996 b/	1997 a/	1997 b/
General resources										
Governments		426	358	351	368	403	392	433	409	461
Non-government sources		22	36	27	28	31	29	32	30	33
Greeting Card Operations		95	95	118	124	134	143	153	165	179
Interest income		24	19	16	12	13	11	12	11	12
Other income		-19	11	20	20	20	20	20	20	20
Total, General resources		548	589	532	552	601	595	650	635	701
Growth (%)	4	8	-7	5	4	13	8	8	7	8
Supplementary funds										
(a) Programmes										
Governments		114	92	122	126	191	128	209	137	230
Non-government sources		74	97	76	79	82	83	86	86	89
United Nations		2	5	3	3	4	3	4	3	4
Other income		-4	-7	0	0	0	0	0	0	0
Subtotal, Programmes		186	187	201	208	277	214	299	226	323
Growth (%)	-2	13	1	7	3	38	3	8	6	8
(b) Emergencies										
Governments		148	89	91	97	107	93	103	83	93
Non-government sources		39	37	34	33	35	32	34	32	34
United Nations		17	44	30	20	22	15	17	15	17
Subtotal, Emergencies		204	170	155	150	164	140	154	130	144
Growth (%)	43	58	-17	-9	-3	6	-7	-6	-7	-6
Total, Supplementary funds		390	357	356	358	441	354	453	356	467
Growth (%)	7	30	-8	0	1	24	-1	3	1	3
Total income		938	866	888	910	1 042	949	1 103	991	1 168
Growth (%)	5	16	-8	3	2	17	4	6	4	6

a/ These moderate income projections are used as the basis for determining programme and budget expenditure levels in the medium-term plan.

b/ These higher income levels are presented here as a target for UNICEF fund-raising efforts. If these levels of income are achieved, the programme expenditure levels contained in the medium-term plan would increase.

Table 5. UNFPA - New programmable resources for 1994-1997

(Millions of United States dollars)

	1994	1995	1996	1997	1994-1997
Regular resources					
(1) Income	281.0	295.0	310.0	326.0	1 212.0
(2) Administrative and Programme Support Services net budget	55.7	57.9	60.2	62.6	236.4
(3) Addition to the operational reserve	8.0	3.0	3.0	3.0	17.0
(4) Subtotal (2) + (3)	63.7	60.9	63.2	65.6	253.4
(5) Available as new programmable resources (1) - (4)	217.3	234.1	246.8	260.4	958.6
Multi-bilateral resources					
(6) Income*	15.0	15.0	15.0	15.0	60.0
Combined resources					
(7) Income (1) + (6)	296.0	310.0	325.0	341.0	1 272.0
(8) Available as new programmable resources (5) + (6)	232.3	249.1	261.8	275.4	1 018.6

Note: Figures may not add up to the totals given because of rounding.

* Available as new programmable resources.

Table 6. WFP - Cash flow projections for regular resources

	1992 (Actual)	1993 (Provisional)	1994 (Projected)	1995 (Projected)
Cash inflow				
Regular pledge	167	150	143	143
Support cost recovery	12	14	38	47
Interest/other income	3	14	16	16
Total	182	178	197	206
Cash outflow				
Projects disbursements				
Transport	81	99	101	105
Internal transport, storage and handling	9	11	9	9
Allocations	10	2		
Programme support and administration	94	89	93	110
Total	194	201	203	224
Net cash flow for the year	-15	-23	-6	-18
Balance at the beginning of the year	82	77*	54	48
Balance at the end of the year	67	54	48	30

* Carry-over balance adjusted to reflect the accurate situation as per the biennial account for 1992-1993.

III. FUNDING OPTIONS

A. Overview

24. The basic problems which need to be addressed are set out by the Secretary-General in documents A/49/665 and A/48/940. These problems include the lack of predictability, inadequate levels of resources and volatility in the level of resources. Programme planning is currently based on resource estimates, on the basis of anticipated future levels of contributions as agreed by Member States in governing bodies. However, as contributions are voluntary, often made in national currency and affected by political and market forces, there is no assurance that the projected resources will, in fact, be received. There is at present no obligation or binding agreement with Governments regarding resource levels. Stability in the planning process requires that contributions consistent with agreed objectives be provided to enable the organizations to establish and implement programmes knowing that the funds will be available when needed. Indeed, developing countries have the right to expect that the resources needed to implement programmes agreed by Member States will be provided so that the agreed programmes will be achieved.

25. At present, UNICEF and UNFPA operate on a multi-year rolling cycle which is adjusted annually based on currently available estimates of present and future contributions. UNDP and WFP have presented a similar approach for their programmes to their governing bodies. If Governments have the political will to ensure that resources will be available on an assured basis, programmes and projects could go forward as originally envisaged, and the disruptive volatility in income and the balance of resources carried forward would not occur, resulting in a more efficient use of funds. In contrast, it should be noted that the multilateral development banks, or programmes such as those of the European Union, do have a stable and assured resource base.

26. The restructuring exercise at present under way could resolve some of the issues of concern to Member States. The changes in governance and harmonization of budget and accounting processes which have been approved will provide greater transparency and give Member States the ability to appropriately evaluate performance and hold organizations accountable for the efficient utilization of the resources put at their disposal.

B. Assessment of funding options

27. To evaluate the options set out in paragraph 7 above, it is necessary to establish the desirable characteristics of an effective funding system and evaluate the alternatives against these characteristics. The first alternative would be to retain the existing system with its limitations. The second alternative could maintain, as the base, voluntary contributions, but would need to incorporate some assurance of the availability of the needed resources to sustain agreed programmes. The third could have, as the base, negotiated contributions with an agreed level of resources obtained from Member States on the basis of an agreed formula. The latter could also incorporate the provision for voluntary contributions, in addition to the negotiated contributions, for direct support to a country, programme or project. Proposals have also been

made to institute assessments for certain administrative costs; if Governments so wish, this suggestion could be explored further.

28. Any revised system would require the following specific characteristics in order to achieve the aims and goals of Member States:

(a) It must provide a firm and stable base for planning purposes including an increase in contributions, in real terms, over time. In this respect, the planning period must be sufficiently long to enable the organizations to formulate, implement and evaluate programmes established or approved by the governing bodies. Agreed programme levels must be linked to the needs of developing countries and their absorptive capacity as identified in country programmes or notes. Future programmes and projects would evolve based on the successes or failures of these programmes. The multi-year rolling planning system in UNICEF and UNFPA and under consideration by UNDP should provide an appropriate planning horizon for this purpose.

(b) The funding levels must be assured. The issue of exchange rate fluctuations was already reviewed in the main report and the suggestion was made to explore the use of special drawing rights (SDRs). Member States would need to provide an assured financial base for the planning period and would either have to cover exchange rate fluctuations which may occur over the period or allow the organizations the opportunity to protect the value of national currency contributions themselves. The suggested use of SDRs would not eliminate the impact of currency fluctuations although it would reduce the magnitude of the swings. The use of SDRs would require that Member States adjust contributions, as necessary, to maintain the value of the pledges. Experience has been acquired by specialized agencies with the use of "currency forward markets" to cover some of their currency needs. It is not clear whether this experience would be applicable to the funds and programmes.

(c) Funds must be available when needed for operational purposes. Again, alternatives exist which would ensure the availability of funds. Either Member States would provide a firm timetable for payment of contributions or, if Member States would issue letters of credit or similar financial instruments for the multi-year planning cycle, funds could then be drawn down as needed, possibly on a pro rata basis, thereby eliminating the risk that organizations could carry substantial balances from one year to the next. As reserves are held by several of the organizations primarily to cover imbalances in cash flow, these reserves could be released for programme purposes.

(d) Funds contributed must be balanced between commodities and cash. For WFP, funds provided in totality are increasing, but the lack of flexibility between commodities and cash has been a major constraint. Contributions should be flexible within a reasonable range so that enough cash becomes available to deliver commodities and provide administrative support.

29. Assessment, replenishment or negotiated contributions have a common element in that each is based on the concept of an agreed amount for programme and administrative purposes and distribution of that amount under an agreed formula among Member States. The concept of assessed contributions for operational activities is not new or unique. Operational activities of the United Nations

have been incorporated in the assessed budget for years, and they now stand at $42.9 million for the biennium 1994/1995. Many agencies of the United Nations system, notably the World Health Organization, have large technical assistance programmes financed under their regular budget. Such a system would place the responsibility for determining the amount and the thrust of programmes for the defined period with Member States. Assessed programmes have the benefit of having shares to be paid by each Member State determined on an equitable and agreed basis. Furthermore, the majority of staff and administrative costs of most organizations are funded under an assessment formula; the funds and programmes constitute an exception in this regard.

30. As mentioned in paragraph 55 of the main report (A/48/940), the predictability and assured availability of resources could be enhanced through a replenishment system and multi-year, negotiated pledges. It could thus address a weakness of the current voluntary system. However, under a negotiated funding method, experience with the International Fund for Agricultural Development (IFAD) and the Global Environment Facility (GEF) has recently shown that it is essential for the largest contributors to set a relatively high target for their contribution, since the other donors often relate their contribution to the level established by that country. Despite these potential difficulties, under proper political conditions the negotiated funding approach could provide Governments with an opportunity to reaffirm their commitment to multilateral assistance and to place it on a more secure and stable basis than the present system. Governments may wish to consider whether the present political climate would be conducive to an effective implementation of such a new system.

C. Possible alternative funding modalities

31. Based on the above analysis, aside from retention of the existing system, there are some other alternatives which emerge, one which is based on the continuation of voluntary contributions as the primary funding modality and one which is based on negotiated contributions, on a formula to be developed by Member States, and others which would add elements of assessment, and still others which would generate combinations and mixes of the differing options. For some options, particularly negotiated pledges, it would be important to have:

(a) A projection of collective and global resource requirements, presented by the organizations to their respective governing body, based on approved and planned programmes, taking into account the needs of developing countries, their absorptive capacity, the themes and programmes of action agreed at world conferences and other forums, and the ability of the organization to deliver the proposed programmes;

(b) The agreement of Member States to the programmes, including the assured provision of resources covering the planning period.

Once approved, the programmes would be guaranteed and it would be the responsibility of Member States to provide the needed resources to meet the needs of the programmes.

32. It is suggested that the following might be explored further:

(a) Possible changes to the existing system:

(i) Based on the multi-year programmes agreed by Member States, the organizations would produce yearly projections which would indicate the level of pledges needed in each year to support the approved programmes (a rolling, three-year programming is also being considered by the Executive Board of UNDP and of UNFPA);

(ii) Member States would be asked to provide firm pledges. As already mentioned in paragraph 65 of the main report (A/48/940), the use of a system of relatively firm, multi-year targets, establishing minimum levels of pledges, would be beneficial. Governments should be in a position to indicate multi-year pledges based on these targets and time-frame or, at a minimum, to agree that their pledge for the first year would be maintained at least at the same level for the second and third years;

(iii) If the level of resources subsequently made available to an organization would be insufficient to meet the requirements of approved programmes, it would be appropriate to review the shortfall at meetings of governing bodies and, hopefully, identify practical steps to meet the programme levels, including through non-core and supplementary funding;

(b) Possible new system based on negotiated pledges:

Once the programmes for the specified period are approved, distribution of the costs of the programme for the period could be agreed by Member States on the basis of a formula determined by them which would ensure that funds sufficient to meet programme needs would be available to the organizations. Firm multi-year commitments could be entered into by each country.

33. Either of these modalities, together with strong political support for operational activities, could provide a better system with more assured, predictable and increased levels of resources to meet the needs of developing countries. The integrity of programmes, once approved, would enable the organizations to concentrate on programme activities as opposed to the present need to concentrate on fund-raising and adjusting programmes to ensure that activities remain within existing resources as under the present funding modality.

34. In approaching the concept of negotiated pledges, recent experience should be borne in mind. As indicated in annex III of document A/48/940 with respect to the International Development Association (IDA) and IFAD, and as has recently been demonstrated with respect to GEF, negotiated contributions do not necessarily provide the level of funds needed to meet the agreed programme needs. In addition, they do not guarantee any continuity of funding beyond the time-frame for each individual replenishment period. They could also inhibit

some donors from exceeding negotiated levels, even if they are prepared to do so, owing to the structure imposed by the negotiations.

35. The suggestion to consider the assessment of specific administrative costs could be reviewed, although a number of Governments have always insisted on the voluntary nature of operational activities within the United Nations system. In the case of UNDP, for instance, consideration could be given, as a minimum, to the financing through assessed contributions of those parts of the budget which support the United Nations system.

IV. CONCLUSIONS

36. Member States, the Secretary-General and the organizations agree that the funding of operational activities is at a critical juncture. Each accepts that it is necessary to put the programmes and funds on a sound financial basis. Only the Member States can change the existing system and it is incumbent upon them to do so. Other international organizations have a sound financial base to work from although none have the breadth, scope or a more central role in development activities than the United Nations system. The assets and strengths of the United Nations system provide a base for the trust, confidence and support of both donor and recipient countries. The level of supplementary funds channelled through the organizations is testimony to their perceived ability to deliver essential assistance well above their voluntary funded levels.

Notes

1/ Cost-sharing contributions, contributions to trust funds and management service agreements, regular, stand-alone or emergency supplementary funding, or reimbursable procurement services.

2/ Report of the United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992 (United Nations publication, Sales No. E.93.I.8 and corrigenda), vol. I: Resolutions adopted by the Conference, resolution 1, annex II.